

# Fiscal Note

*Fiscal Services Division*



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**SF 2342** – Geothermal, Solar, and Other Tax Changes (LSB 6139SV)  
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Fiscal Note Version – As passed by the Senate

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## **Description**

**Senate File 2342** relates to income tax credits, a property tax exemption, and sales tax exemptions. The Bill:

- Creates an individual income tax credit for the installation of a residential geothermal heat pump. The new income tax credit is equal to 20.0% of the federal residential energy efficiency tax credit available for geothermal heat pump installations. The federal credit is equal to 30.0% of qualified geothermal heat pump installation expenditures and is set to expire December 31, 2016. The Iowa tax credit will continue to be available should the federal tax credit be extended. The new State tax credit is first available in tax year 2012 and it is not refundable, but unused credits can be carried forward and utilized by the taxpayer in ten future fiscal years.
- Prevents the installation of a geothermal heat pump system from increasing the assessed value of residential property for 10 assessment years. This applies to systems installed on or after July 1, 2012, and first assessed for property tax purposes on January 1, 2013 (FY 2015).
- Creates a State individual and corporate income tax credit equal to 25.0% of a federal tax credit that is available for the installation of solar energy systems. The federal credit is equal to 30.0% of qualified solar energy system installation expenditures and is set to expire December 31, 2017. The Iowa tax credit will continue to be available should the federal tax credit be extended. The annual aggregate limit for all Iowa solar energy credits is \$1.5 million. The new income tax credit is first available in tax year 2012 and is not refundable, but unused credits may be carried forward and utilized by the taxpayer in 10 future fiscal years.
- Creates a sales tax exemption for auto body repair materials. The exemption is effective on enactment.
- Creates a sales tax exemption for inputs used in a car wash for a retailer providing a car wash service. The exemption is effective on enactment.

## **Assumptions – Geothermal**

- The Iowa Utilities Board estimates that 2,000 residential geothermal installations occur each year (new construction and replacement systems).
- The Department of Revenue estimates that the average cost of installation is \$17,500. An individual income tax credit based on 20.0% of the 30.0% federal credit equals a State tax credit of \$1,050, and using the redemption patterns of other nonrefundable tax credits, it is assumed the \$1,050 will be utilized as follows:
  - First tax year = 56.0%
  - Second tax year = 30.0%
  - Third tax year = 9.0%
  - Fourth tax years = 5.0%
- The Department of Revenue's Iowa Real Property Appraisal Manual places an additional property value equal to \$4.00 per square foot for the installation of a geothermal heating

system in a single-family residential home. Due to construction-quality grade adjustments, the typical square foot adjustment for a geothermal heat pump home is \$4.88 per square foot.

- Polk County property assessment data indicate that the median square footage of a home with a geothermal heat pump is 1,792 square feet. At \$4.88 per square foot, this equals \$8,745 in assessed value per installation.
- The residential rollback is 50.7518% for assessment year 2011 (FY 2013) and is projected to increase over the next eight years. For estimating purposes, a rollback value of 55.0000% was used.
- The FY 2012 average residential tax rate was \$35.68 per \$1,000 of taxable value and that rate was assumed for this estimate. The school aid basic levy represents \$5.40 of the \$35.58 average tax rate.
- Given the above property tax related assumptions, the average property tax reduction associated with this proposed exemption is \$172 per year for 10 years (\$1,720).

### **Assumptions – Solar Energy Systems**

- The entire \$1.5 million annual aggregate tax credit amount will be awarded each tax year. Claims in excess of the annual cap will be denied.
- Using the redemption patterns of other nonrefundable tax credits, it is assumed the solar tax credits will be utilized as follows:
  - First tax year = 56.0%
  - Second tax year = 30.0%
  - Third tax year = 9.0%
  - Fourth tax years = 5.0%

### **Assumptions – Auto Body Repair Materials**

- Total repair costs in Iowa are estimated at \$262.9 million in the base year and 10.3% of the cost is for materials impacted by the Bill.
- Growth in taxable sales is estimated at 3.7% in FY 2012, 3.4% in FY 2013, 3.7% in FY 2014, and 4.4% in FY 2015.
- Cost mark-up for the auto body repair dealers is assumed to be 30.0% of the cost of the materials.
- All auto body repair dealers will provide a value for the materials used on the bill of sale and that amount will be subject to sales tax payable by the consumer.
- The effective date will be May 1, 2012.

### **Assumptions – Car Wash Sales Tax Exemption**

- Based on data from the Iowa Department of Revenue, taxable car wash sales between FY 2008 and FY 2010 averaged \$85.8 million per year. Of this amount, inputs are assumed to be equal to 14.4%.
- Growth in taxable sales is estimated at 3.7% in FY 2012, 3.4% in FY 2013, 3.7% in FY 2014, and 4.4% in FY 2015.
- The effective date will be May 1, 2012.

### **Fiscal Impact – Geothermal**

The new individual income tax credit created in the Bill for geothermal installations is projected to reduce income taxes paid to the State by \$10.5 million over eight fiscal years. Should the federal credit be extended past 2016, the State credit will have an impact beyond FY 2020. The Bill will also have a modest negative impact (\$36,000 to \$50,000 per year) on revenue generated by the local option income surtax for schools.

The property tax exemption created in the Bill is projected to reduced property taxes owed by the impacted taxpayers by \$0.1 million in FY 2015 and that impact will grow in annual increments of approximately \$300,000 through FY 2020. Through the school aid formula, the State General Fund appropriations will replace approximately 15.1% of the property tax reduction and the remaining impact will represent reduced local government property tax revenue.

<b>Fiscal Impacts in Millions of Dollars</b>			
	State General Fund Revenue Reduction	State School Aid Appropriation Increase	Local Property Tax Revenue Reduction
FY 2013	\$ 1.2	\$ 0.0	\$ 0.0
FY 2014	1.8	0.0	0.0
FY 2015	2.0	0.0	0.1
FY 2016	2.1	0.1	0.4
FY 2017	2.1	0.1	0.7
FY 2018	0.9	0.2	1.0
FY 2019	0.3	0.2	1.3
FY 2020	0.1	0.3	1.6
FY 2021	0.0	0.3	1.9
FY 2022	0.0	0.4	2.2
FY 2023	0.0	0.4	2.5
FY 2024	0.0	0.5	2.8

### **Fiscal Impact – Solar Energy Systems**

The new State solar energy system income tax credit created in the Bill is projected to reduce net General Fund revenue by \$9.0 million over nine fiscal years. Should the federal credit be extended past 2017, the State impact will continue beyond FY 2021. The new tax credit will also have a modest negative impact (\$35,000 to \$40,000 per year) on revenue generated by the local option income surtax for schools.

State General Fund Revenue Reduction	
	Millions of Dollars
FY 2013	\$ 0.8
FY 2014	1.3
FY 2015	1.4
FY 2016	1.5
FY 2017	1.5
FY 2018	1.5
FY 2019	0.7
FY 2020	0.2
FY 2021	0.1

### **Fiscal Impact – Sales Tax Exemptions**

The following table provides the impact of the auto body repair materials and car wash sales tax exemptions on the State General Fund, the Secure an Advanced Vision for Education (SAVE) Fund, and local option sales tax (LOST) revenue.

<b>Estimated Fiscal Impact Sales Tax Exemptions</b>				
	<b>Total State Sales Tax</b>	<b>General Fund</b>	<b>SAVE</b>	<b>LOST</b>
FY 2012: Auto Repair Material	\$ 65,059	\$ 54,216	\$ 10,843	\$ 9,434
FY 2012: Car Wash Inputs	-127,675	-106,396	-21,279	-18,513
<b>FY 2012: Net Impact</b>	<b>-62,616</b>	<b>-52,180</b>	<b>-10,436</b>	<b>-9,079</b>
FY 2013: Auto Repair Material	\$ 403,628	\$ 336,357	\$ 67,271	\$ 58,526
FY 2013: Car Wash Inputs	-792,098	-660,082	-132,016	-114,854
<b>FY 2013: Net Impact</b>	<b>-388,470</b>	<b>-323,725</b>	<b>-64,745</b>	<b>-56,328</b>
FY 2014: Auto Repair Material	\$ 418,563	\$ 348,802	\$ 69,760	\$ 60,692
FY 2014: Car Wash Inputs	-821,406	-684,505	-136,901	-119,104
<b>FY 2014: Net Impact</b>	<b>-402,844</b>	<b>-335,703</b>	<b>-67,141</b>	<b>-58,412</b>
FY 2015: Auto Repair Material	\$ 436,979	\$ 364,149	\$ 72,830	\$ 63,362
FY 2015: Car Wash Inputs	-857,548	-714,623	-142,925	-124,344
<b>FY 2015: Net Impact</b>	<b>\$ -420,569</b>	<b>\$ -350,474</b>	<b>\$ -70,095</b>	<b>\$ -60,982</b>
SAVE = Secure an Advanced Vision for Education				
LOST = Local Option Sales Tax				

### **Summary of General Fund Impact**

The following table provides a summary of the General Fund impact for SF 2342 for the FY 2012 to FY 2015.

<b>Summary of General Fund Impact for SF 2342 FY 2012 - 2015</b>				
<b>Dollars in Millions</b>				
	<b>General Fund Revenue Reduction</b>			
	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
Geothermal Tax Credit	N/A	\$ 1.2	\$ 1.8	\$ 2.0
Solar Energy Systems Tax Credit	N/A	0.8	1.3	1.4
Auto Body Repair & Car Wash				
Sales Tax Exemption Net Impact	0.1	0.3	0.3	0.3
<b>Total General Fund Impact</b>	<b>\$ 0.1</b>	<b>\$ 2.3</b>	<b>\$ 3.4</b>	<b>\$ 3.7</b>
<b>Note:</b> SF 2342 also impacts school aid appropriations, local property tax revenue, the SAVE Fund, and local option sales tax revenue. See the detail in the body of this fiscal note for more detail.				

**Sources**

Iowa Utilities Board  
Department of Revenue  
Iowa Real Property Appraisal Manual  
Polk County residential assessment statistics  
Body Shop Business, State of the Industry Reports (2006, 2008, 2010-11)  
Iowa Collision and Repair Association  
LSA analysis and calculations

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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